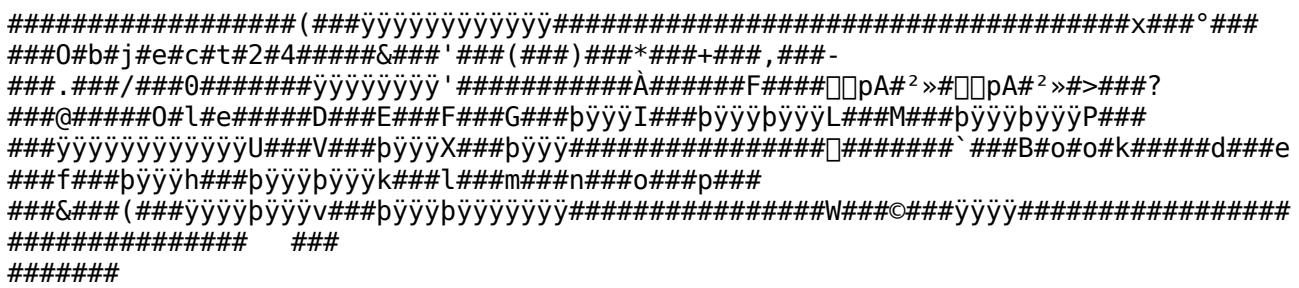

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###########################################################################Are
cost objectives defined and consistent with requirements and projected fiscal
resources?#Out-year resources identified?  ($)Production and O&S cost objectives
included in the RFP?Key tradeoff issues addressed?  (e.g., in COEA)##Is DoD
managing to achieve cost objectives?#RFP containes a strict minimum number of
performance specifications?  (#)CP-IPT functioning; tradeoff space identified in
program baseline and RFP?Risks to achieve cost objectives identified and program
steps to address these defined?  (risk plan)Incentives for achieving cost
objectives included in the RFP and contract?  (% relative to total contract $□s)
Mechanism for contractor suggestions to reduce production and O&S costs in place
and operating?Allocation of cost objectives provided to IPTs and key suppliers
Measurement and estimation of reliability and maintainabilityRobust contractor
incentives plan in place?##Are contractors managing to achieve cost objectives?
#Providing appropriate tools for cost-performance tradeoffs (including
incentives for corporate management) and participates in cost-performance
tradeoff processIdentifying (and when appropriate implemnets) new technologies
and manufacturing processes that can reduce costsIdentifying procedural/process
impediments to cost reduction measuresEstablishing strong relationship with
vendor base, including sound incentives structure####
¢#¤ö2¥Ð/¦##§##¨##©####¶#######¶#######¶#######¶#################################
############################################################ ITEM#LIFE-CYCLE
COSTS#CLINCOSTS#EXCLUDEDCOSTS#NOTES##FSD Contractor Labor#X#X##SW Development,
T&E, Training, ect.##Government Labor#X###T&E, Training, etc.##Other Contractor
Labor#X###Interfaces Developed by Other NAS Contractors##GFE
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lÿÿÿ ###ÿÿ#####ÿ□#ÿÿd######0##Z#########A####The New Acquisition
Initiative#(Government/Industry Perspective)

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Ð#ÿÿ####ÿÿ####Uÿn#ÿÿK##########n#########2###BackgroundCAIV ConceptGovernment
PerspectiveNew Business PracticesConceptual ApproachCAIV:  Government Vs.
IndustryIndustrial Approach To CAIVCAIV ProcessIndustrial CAIV Organization
Elements of the New CAIV CultureLessons Learned From IndustryChanging Roles For
Cost/Performance AnalysisSummary
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÷Õü#
»#ÿÿ####ÿÿ####Tÿn#ÿÿK#########d#############   □Contrary to common lore, experience has shown that products or systems developed under the CAIV process are more often than not the □105% solutions□ rather than the □80% solution.□

CAIV-developed products are generally simpler, easier to build, more reliable, and represent a better match to customer needs than those developed to meet maximum performance specifications. The dramatic cost-reduction potential ... when coupled with the potential for superior systems and products, makes this a true □win-win□ approach for the DoD.u

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Ò#ÿÿ####ÿÿ####Tÿn#ÿÿK#########d#########k###Managers throughout the Industry and Government are re-engineering their business practices and trying to:#

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s#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d#########d###Defined by □Old World Order□ of monolithic Soviet threatPace of modernization driven by need to offset quantitative superiority of threat/threat weaponryNew systems had to equal or exceed projected threatWeapon systems normally replaced prior to end of technical service lifeStable or growing defense budgets required in response to external threats

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s#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d#########ý###Diffuse threat, not solely technology drivenDecreasing trends in forces and budgetsInfrastructure and manpower reductionsSystems retained to end of service life and beyondTough prioritization decisionsFocus on outsourcing and privatization□Reality□ based budgetsKeep critical programs whole by terminating other programs or making major cuts in program □X□, if requiredBottom Line - Cannot afford to modernize force in long run under old paradigm, but cannot afford not to modernize under new paradigm#

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ç#ÿÿ####ÿÿ####Uÿn#ÿÿK#########Z#########+###The private sector has a model for meeting this challenge since private sector developments:Are nearly all cost driven, vice performance drivenMust respond to market forcesUsually imply a market-driven cost constraintThe Government can use private sector model for a new system in terms of:Build to requirementsIts target marketIts associated cost constraint (that is, make a smart business decision)For example, the F-22 development targets the market for air superiority fighters with a pre-determined percent of available investment fundsY

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##ÿÿ####ÿÿ#####ÿ□#ÿÿd#########d#########□###Approach (Cont□d)Establishing tradeoffs empowers the userTo make choices to provide the best performance for the money for each systemMust be initially conducted before acquisition strategy is finalizedGreatest opportunity to influence life-cycle costsContinue making tradeoffs throughout the acquisition processNecessary due to changes in external parameters and evolving program realities

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###ÿÿ#####ÿ□#ÿÿd#########d#########}###Flyaway Cost Plus- Technical Data-
Publications- Support Equip- Training Equip- Other Gov□t Costs- Contractor
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###ÿÿ#####ÿ□#ÿÿd#########d#########A###Program Acquisition Cost Plus-  O&S-  Mil
Pers-  ModificationsS
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s#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########d#############Equivalent of sound commercial business practicesObjectives set as early as possibleMilestone I or before for most systemsLower cost objectivesVice that projected for a system using past ways of doing businessPossible increase in upfront costsIn order to realize longer-term savings#

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û#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d#########m###Life-cycle cost objectives
should be set for:ProductionOperations and Support (O&S)Aggressive cost
objectives:Should be challenging but realisticShould be defined as ranges
Increasingly more specific in subsequent acquisition phases (reduce range)
Typically entail risksProcess maturity, aggressive management and other
initiatives should lower overall risk#

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      s#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########d#########)###Life-cycle cost objectives
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should consider: Near-term and out-year resourcesRecent unit and O&S costs of comparable or fielded systemsParametric estimatesMission effectiveness analysis and tradesTechnology trendsUse of innovative manufacturing techniquesUse of commercial business practicesd

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#################$##########################ÿ□#ÿÿd#########d#########2##□##ú÷□ü□
      s#############T#n###K#########d######### ###Risk ManagementPerformance and
cost goalsDemonstrate solutions to key cost/risk areas before productionRisk
reduction through use of mature processes as a source selection factorUse of
unit procurement and O&S tracking modelsUpdate cost predictions based on
observed events/ metrics
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ù#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########_#########§###Significant challengesMotivate DoD
and industry managersTo innovate and accept larger risks in order to achieve
breakthroughs in cost and performancePromote Congressional acceptance to greater
risk-takingAvoid penalizing failures that occur despite best management efforts
Avoid using risks identified as a hammer against a programFoster environment
that promotesGoal settingTeamworkRecognition of accomplishmentsi

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V#############T#n###K#########d#########þ###For fielded systemsEstablish mechanism to encourage component funding of high-leverage system modifications to lower operating costsEstablish a formal annual awards board to reward individuals/organizations for innovations that reduce life-cycle costs

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################$########################ÿ#ÿÿd#########d#########2####ú÷üs#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d##########Incentivization is critical element
Permit savings to accrue to benefit of acquirer of service/ support/product -
buy to budget conceptGovernment - Old paradigm pushes program managers to
minimize schedule and acquisition cost variances while meeting specification
requirements.  New paradigm needs to alter balance in assessing program manager
performance in favor of attainment of cost objectives
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s#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d#########½###Industry - Old paradigm provides little incentive to complete programs at or under cost, since for cost-plus contracts incentive is to increase costs, particularly through performance upgrades. (i.e., Greater costs means greater profits.) New paradigm needs to find better ways to incentivize cost savings and penalize overruns.Goal - Energize private sector competition to deliver systems that meet or exceed both cost and performance goals#

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##ÿÿ####ÿÿ#####ÿ□#ÿÿd#########U#########ì###Same as Design-to-Cost (DTC) in defense industry?Cost goals based on mission affordabilityFinancial incentive to achieve cost goalsSame as target costing in commercial business?Purpose is to contain cost and succeed commerciallyPrice goals based on market surveysCrucial to new product introductionImplementation of sound business practiceCost can no longer be considered an output parameterUnit cost now is design □input□Equal to any performance parameter in trade study analysis

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K#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########d#########z###Encourage realistic, but aggressive,
early cost goal(s) from customerAllocate top level cost goal(s) to cost targets
By WBSSeparately for production and operationsUsing parametric methodsManage
risks to achieve cost, performances, and schedule objectivesEstablish
appropriate metrics to track progressMotivate managers, designers, and
subcontractorsIncentivesCompetition
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      □#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########d#########¬###Cost goal may be based on:
Current system or product costMarket surveyIndependent estimateResources
availableConsumer notion of valueLower than for □business as usual□
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s#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########Z#########□###Match cost model parameters to design and process cost driversCalibrate to relevant history (product, process, environment)Capture previous costsEstablish realistic audit trailExtrapolate where necessaryExploit flexibility of parametric estimating method to:Generate early estimate baselineAllocate goals intelligentlySelect effective design and process alternativesRelate costs to cost drivers#

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      v#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########Z#########
###Eliminate non-essential requirements (knee of curve)Substitute performance specificationsEncourage standard parts and materials; COTS; NDIAssume use of IPTsStreamline acquisition processEliminate unjustified specificationsEliminate unnecessary deliverables

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and 4th     WBS level targetsStart with baseline           estimate percentage
Specify results,            not meansAllocate to IPTs            and specific
            designers
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s#ÿÿ####ÿÿ####Uÿn#ÿÿK#########d#########`###Cost As an Independent Variable (CAIV) Working Group Report; OSD/A&T, December 1995.□Cost As an Independent Variable (CAIV),□ USCEAC Presentation, 29th Annual DoD Cost Analysis Symposium, February 1996.□Activity-Based Costing and CAIV,□ Dr. Douglas Webster, American Management Systems, Inc.; 29th Annual DoD Cost Analysis Symposium, February 1996.

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Ä#ÿÿ####ÿÿ####Tÿn#ÿÿK#########Z#############Product Decisions	-
System architecture	-	Component technology	-	Product complexityProcess Decisions	-	Make or buy -	Degree of automation	-
Engineering complexityProgram Decisions	-	Source selection	-
Maintenance concept	-	Warranty provision

#################$##########################ÿ□#ÿÿd#########d#########2##□##ß÷]ü_ ¯#############T#n###K#########U#########Á###Program Manager - Assumes CAIV responsibility and authority - Understands customer affordability requirements - Approves DTUPC goal recommendation System Engineering Manager - Recommends elimination of unaffordable requirements - Challenges system level specifications - Conducts system level trade studiesBusiness Manager - Provides financial data - Provides calibrated cost models and procedures - Assigns CAIV Engineers to IPTs #

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Í#ÿÿ####ÿÿ####Tÿn#ÿÿK#########U#########ò###CAIV Manager - Manages CAIV program - Prepares and executes CAIV plan - Provides CAIV training - Recommends DTUPC goal - Allocates cost goal to lower level cost targets - Tracks current estimate and variances - Prepares CAIV reports - Coordinates trade studiesIPT - Allocates segment level cost targets to elements and components - Conducts trade studies - Prepares cost estimates, with risk, for: -- Trade studies -- Current estimate - Supports preparation of CAIV reports

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û#ÿÿ####ÿÿ#####ÿ□#ÿÿd#########P#########¾###CAIV ManagerManages CAIV program prepares and executes CAIV planProvides CAIV trainingRecommends DTUPC goal Allocates cost goal to lower level cost targetsTracks current estimate and variancesPrepares CAIV reportsCoordinates trade studiesIPTAllocates segment level cost targets to elements and componentsConducts trade studiesPrepares cost estimates, with risk, for:Trade studiesCurrent estimateSupports preparation of CAIV reports

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□#ÿÿ####ÿÿ####Uÿn#ÿÿK#########Z#########+###Program management supports CAIVCost goals enjoy same weight as technical goalsCost is independent variable in trade studiesIPTs will manage own cost targetsTeam engineers will be evaluated on cost goals as well as technical goalsThere is a new awareness of design and process cost driversw

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##ÿÿ####ÿÿ####Uÿ#ÿÿK#########Z#########z###Is baseline estimate current, complete, accurate, replicable?Has cost goal been allocated to cost targets?Do IPTs have access to historical cost data?Can estimating models accommodate all life cycle phases?Have estimating models been calibrated?Are design and process decisions based on cost trade studies?Are evolving costs (production or life cycle) being reduced?

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a#############T#n###K#########d#############Starting Point: Cost targets
not established; IPTs do not have access to cost data; cost not a decision
criterion; estimates lag design.Low Level: Cost targets established, but
not achieved; IPTs have limited access to cost data; simple models track cost as
design evolves.#

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s############T#n###K#########d#########Í###Mid Level:     Cost targets guide
design process; IPTs address customer affordability; effective life cycle cost
(LCC) models are available; cost drivers are understood.High Level:
      Management supports CAIV; calibrated LCC models track evolving design cost
and compare to cost targets; IPTs focus on meaningful trade studies;
requirements cost effectiveness is evaluated; costs are controlled and managed;
cost analysis  influences design and process decisions.#
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#############T#n###K#########P#########Õ###Insure understanding and agreement
of cost goals     -     Cost elements     -     Program/economic groundrules and
assumptions Establish effective organizational structure    -     DTC manager
reports to program manager or business         manager     -     Estimators
(CAIV Engineers) assigned to each IPTDevelop CAIV Plan     -     Procedures
consistent with program requirements      -     Goal allocation rationale     -
      Management responsibility     -     Prepare for program reviews   -
      Identify major trade studies#
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C#############T#n###K#########d#########B###Relate DTUPC targets to controllable technical/ production parameters - Dollar/hour targets translated into cost drivers - Parametric modelsAllocate cost goals - Insist on accountability - Highlight CAIV in design reviews Conduct trade studies - Introduce risk analysis early - Exploit big ticket items first

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üÆ#[#############T#n###K#########d#########×###Flow down requirements and
incentivesMaintain CAIV configuration control  -     Ensure targets are
trackable, measurable and          incentivized      -     Provide reporting
procedures  -     Incorporate actuals    -     Update database   r
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□#ÿÿ####ÿÿ####Tÿn#ÿÿK#########P#########°###Yes:Revisit prioritization: perform cost/performance tradeoffs evaluate fully implications of funding adjustments Identify/assess those elements which may be cost prohibitive and impeding program successRe-examine performance thresholds to ensure they are properly defined and not over-statedExplore other alts/designs/process changesnew technologies and/or operational conceptsEnhanced linkages between acquisition and PPBS

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##ÿÿ####ÿÿ####Uÿn#ÿÿK#########Z#########ñ###Additional and earlier cost support
in developing affordable requirements and life cycle cost at minimum thresholds
System analysis and control activities established to serve as a basis for
evaluating and selecting alternativesRequirements shall be refined as a
consequence of cost-schedule performance trade-offs during each phaseLife cycle
cost reductions accomplished through cost/ performance trade-off analyses
Additional importance of supporting good O&S and force structure databases#

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Design-to-Cost (DTC) for Product Development Teams (IPTs);□ Training Course; Management Consulting & Research, Inc. (MCR); April 1996.□Design-to-Cost / Life Cycle Cost (DTC/LCC) Plan for Army Crusader Program;□ Management Consulting & Research, Inc. (MCR); December 1995. □Design-to-Cost;□ Henry Apgar and Jack Griffin; Hawksmere Seminar; London; October 1995.Cost As An Independent Variable, Mr. Ron Shames, SCEA National Conference, June 1996.

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